Canadian Pacific Investments Limited

Annual Report 1978

Directors

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Chairman,
Tioxide Canada Inc.,
Montreal

*F. S. Burbidge,
President,
Canadian Pacific Limited, Montreal

F. E. Burnet,
Chairman of the Executive Committee,
Cominco Ltd., Vancouver

*†A. M. Campbell,
Chairman of the Executive Committee,
Sun Life Assurance Company of Canada,
Toronto

Robert W. Campbell,
Chairman of the Board and Chief Executive Officer,
PanCanadian Petroleum Limited,
Calgary

John Macnamara,
President and Chief Executive Officer,
The Algoma Steel Corporation, Limited,
Sault Ste. Marie

†Angus A. MacNaughton,
Vice-Chairman and Chief Executive Officer,
Genstar Limited, Montreal

*W. Moodie,
President,
Canadian Pacific Investments Limited,
Montreal

†S. E. Nixon,
Corporate Director,
Montreal

*Paul L. Paré,
President and Chief Executive Officer,
Imasco Limited, Montreal

Neil F. Phillips, Q.C.,
Partner,
Phillips & Vineberg, Montreal

*Ian D. Sinclair,
Chairman and Chief Executive Officer,
Canadian Pacific Limited, Montreal

R. D. Southern,
President and Chief Executive Officer,
ATCO Ltd., Calgary

W. J. Stenason,
Executive Vice-President,
Canadian Pacific Investments Limited,
Montreal

*Member of Executive Committee

†Member of Audit Committee

Officers

Ian D. Sinclair,
Chairman and Chief Executive Officer,
Montreal

W. Moodie,
President,
Montreal

W. J. Stenason,
Executive Vice-President,
Montreal

Paul A. Nepveu,
Vice-President Finance and Accounting,
Montreal

G. S. MacLean,
General Manager, Administration and Corporate Secretary,
Montreal

D. E. Sloan,
Treasurer,
Toronto

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Notice of Annual and Special General Meeting of Shareholders

The Annual and a Special General Meeting of the Shareholders of Canadian Pacific Investments Limited will be held on Monday, April 30, 1979, at Le Château Champlain, Place du Canada, Montreal, Quebec, at 11:00 a.m. (daylight saving time, if operative), for the following purposes:

a. to receive the Report of the Directors, accompanying Consolidated Financial Statements and Report of the Auditors thereon, for the year ended December 31st, 1978;

b. to consider and, if deemed fit, to sanction By-law No. 18, enacted by the Board of Directors on March 5, 1979 increasing the number of directors of the Company from fourteen to sixteen;

c. to elect directors;

d. to appoint the auditors and to authorize the Board of Directors to fix their remuneration;

e. to consider and vote upon a Special Resolution to authorize the directors to apply for a Certificate of Continuance under the Canada Business Corporations Act which will enable the Company to be continued under that Act under the name "Canadian Pacific Investments Limited—Investissements Canadien Pacifique Limitée", and to approve the proposed Articles of Continuance;

f. to consider and, if deemed fit, to sanction By-law No. 1 enacted by the Board of Directors on March 5, 1979, to become effective upon issuance of the Certificate of Continuance; and

g. to transact such other business as may properly come before the meeting.

The Board of Directors has by resolution fixed the time, before which proxies to be used at the Annual and Special General Meeting or any adjournments thereof must be deposited at Montreal, Quebec, with the Company or the Montreal Trust Company as Agent for the Company, at twenty-four hours, excluding Saturdays and holidays, preceding the Annual and Special General Meeting or any adjournments thereof.

By order of the Board,
G.S. MacLean, General Manager, Administration and Corporate Secretary

Montreal, March 5th, 1979.

Stock Holdings—at December 31, 1978

Common shares—outstanding 60,704,118, of which 50,000,000 were owned by Canadian Pacific Limited and the remainder by 14,610 shareholders, of whom 97.5% were Canadian registrants.

Preferred shares—Series A—outstanding 39,657, held by 686 registered shareholders, of whom 93.0% were Canadian registrants.

Transfer Agent and Registrar

Montreal Trust Company, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver.

Stock Listings

Common Shares:
Montreal, Toronto and Vancouver Stock Exchanges

Preferred Shares, Series A:
Montreal, Toronto and Vancouver Stock Exchanges

Si vous désirez vous procurer la version française du présent rapport, veuillez vous adresser au secrétaire, Investissements Canadien Pacifique Limitée, bureau 1900, Place du Canada, Montréal, Québec H3B 2N2.

To the Shareholders

The Company had a record year in 1978. Earnings of $273.9 million were $60.7 million, or 28%, higher than those of 1977, and more than triple those of five years ago.

Earnings per Common share amounted to $4.51, compared with $3.55 in 1977, and dividends were raised to 79¢ per Common share from 69¢ in the previous year.

Results in 1978 establish a new standard of achievement, and reflect the potential of CP Investments.

Modest though it was, the rate of economic growth in Canada during the year was higher than in 1977. In the United States the pace slackened somewhat as compared with 1977, but real GNP still increased at a rate higher than the average of the last decade. The current U.S. expansion has become the longest in recent history. One result of this has been good levels of demand for such commodities as lead, zinc, steel, pulp and paper and lumber—all of which are of great importance to the Company.

The further weakening of the Canadian dollar during the year was also a factor of some significance. At the same time as it improved the competitiveness of Canadian products abroad, it increased Canadian dollar revenues on sales paid for in stronger foreign currencies. Cost increases which flow from this are not so easily measured. They are not as highly visible, and their impact is rarely felt all at once, as the immediate benefits to revenues are. However, costs do inevitably rise as imported goods of all kinds become more expensive to buy, and interest and debt in foreign currencies have to be paid. It is the inevitability of these cost increases that prevents any country from keeping its exports competitive solely by reliance on depreciation of its currency.

As can be seen from the table on page 3, most of the Company's diverse activities contributed to the year's growth in earnings. The large increase in investment income resulted from the sale of the Company's holding in TransCanada PipeLines. Oil and gas earnings were up largely as a result of higher prices. Income from mines and minerals was higher chiefly because of increased sales of coal and lower unit production costs. The forest products group benefited from greater sales volumes and some price increases. Income from iron and steel operations was double the previous year's level, primarily due to higher steel product shipments and better steel prices, as well as improved earnings from Dominion Bridge. Real estate earnings were boosted by gains on property sales. Results of hotels ran counter to the dominant trend, mainly due to losses on foreign operations and substantial write-offs.

Acquisition during the year of Syracuse China Corporation, of Syracuse, New York, and purchases in 1977 and early 1978 of additional shares in Dominion Bridge Company, Limited, contributed to 1978 earnings and will enhance earnings in future years. Syracuse manufactures chinaware and related products for the rapidly growing food service industry. The main thrust of the activities of both Syracuse and Dominion Bridge is in the United States, where the Company and its subsidiaries have been increasingly investing in recent years in order to provide greater geographical and market diversification. The acquisition of Baker Commodities of Los Angeles late in 1976 and the new investments in the U.S. by Cominco, Marathon, PanCanadian and Dominion Bridge are other examples of moves to take advantage of profitable U.S. market situations.

For 1979 the outlook is that earnings will be in the same range as those of 1978. Since it is unlikely that there will be any portfolio sales to equal the amount of last year's sale of TransCanada PipeLines shares, it is expected that increased profits from the subsidiary operations will make up for this. Basic to this assessment of prospects is the view that both the U.S. and Canadian economies will show greater strength than is generally being anticipated.

Prior to the close of the year, the Company announced its intention to make a public offer for all the outstanding common shares of MacMillan Bloedel Limited. In mid-January, the Company's Directors decided that in order to meet the request of the Premier of the Province of British Columbia, the offer would not be made.

Officers and employees of the Company and of all its subsidiaries have good reason to be proud of the successes of the past year. The Directors are pleased to express their sincere appreciation for the efforts that made these possible.

For the Directors,

President

Chairman and Chief Executive Officer

Montreal, March 5, 1979

Summarized Statement of Net Income of CP Investments Limited

	1978	1977	Increase or (Decrease)
	(in millions)		
Oil and gas	**$125.0**	$110.2	$14.8
Mines and minerals	**44.1**	41.1	3.0
Forest products	**18.3**	10.1	8.2
Iron and steel	**46.7**	23.0	23.7
Real estate	**15.3**	11.6	3.7
Hotels and food services	**(15.0)**	(4.7)	(10.3)
Finance	**2.7**	2.5	0.2
Other operations	**7.4**	4.4	3.0
Investment income	**29.4**	6.5	22.9
Income before extraordinary item	**273.9**	204.7	69.2
Extraordinary item	**—**	8.5	(8.5)
Net income	**$273.9**	$213.2	$60.7
Per Common share:			
Income before extraordinary item	**$ 4.51**	$ 3.41	$1.10
Net income	**4.51**	3.55	0.96
Dividends	**0.79**	0.69	0.10

Oil and Gas

PanCanadian Petroleum Limited

Operations of PanCanadian during 1978 resulted in an increase in earnings of 13% over those of 1977. Higher prices for oil and natural gas were a major contributor to this improved performance. Production of crude oil decreased slightly. Natural gas production showed an increase early in the year, but subsequent reductions in deliveries taken by gas purchasers as a consequence of a gas surplus resulted in virtually the same production levels as in 1977. In common with other natural gas producers, PanCanadian made a submission to the National Energy Board regarding natural gas supply and requirements. The presentation showed that current reserves will exceed domestic and present export requirements through 1983, with future reserve additions extending these surpluses until the late 1990's.

The lack of markets for surplus gas has resulted in increased exploration in areas considered more promising for oil, particularly in the West Pembina area of Alberta. In that area PanCanadian participated in an oil discovery during the year. PanCanadian also participated in two encouraging oil discoveries in the Elmworth area of Alberta, which are currently being evaluated.

PanCanadian has a 12½% interest in a heavy oil experimental project at Marguerite Lake, in the Cold Lake area of Alberta. Production commenced during the third quarter of the year. In December the company purchased a 5% interest in the Syncrude project from the Ontario Energy Corporation, at a cost of $160 million. This project is designed to produce, at full capacity, some 129,000 barrels per day of synthetic crude oil from the Athabasca Tar Sands. Production began in mid-1978 and will move towards design capacity in 1979. These two projects, Marguerite Lake and Syncrude, will ensure PanCanadian a substantial participation in long term energy development, and alleviate the effect of declines from presently producing fields.

Projects to increase oil production from the Countess and Parflesh oil fields in Alberta are proceeding, although the full impact of these programs will not be felt until 1980. Gas development is continuing in various fields to meet existing contract obligations.

Construction of a sour gas plant, located west of Calgary, and with a capacity of 10 million cubic feet per day, is scheduled to commence during 1979. Gas from this plant, which is expected to be on stream by the end of the year, will be sold under an existing contract.

Total capital expenditures for exploration and development projects in Canada rose to $105.9 million, from $63.5 million in 1977.

Outside Canada, PanCanadian participated in gas discoveries in the Gulf of Mexico and in California, and in oil discoveries in Louisiana and Colorado. Preparations are under way to drill a well in mid-1979 off the northwestern shelf of Australia on an 8 million acre block in which PanCanadian has a 20% interest.

Comparative year-end figures of PanCanadian's proven and probable reserves are:

	1978	1977
Net after royalty		
Crude oil and natural gas liquids—million barrels	146.3	153.0
Natural gas—billion cubic feet	2,683.0	2,448.0
Sulphur—million long tons	3.0	3.4
Coal—million short tons	1,748.0	1,490.0
Gross		
Synthetic oil based upon 5% interest in Syncrude project—million barrels	57.0	—

The market value of the Company's 87.1% interest in PanCanadian was $1,046.8 million at the end of 1978, based on the closing market price of $38½ per share.

Panarctic Oils Ltd.

Panarctic's exploration in the Canadian Arctic during the year resulted in the drilling of seven wells, all of which were unsuccessful. Three additional wells were drilling at year end.

Canadian Pacific Investments held an 11.9% net interest in Panarctic at year end, through PanCanadian Petroleum and Cominco. This was a decrease from the 12.5% interest held at the end of 1977, reflecting increased investment in Panarctic by another Canadian oil company.

Mines and Minerals

Cominco Ltd.

Cominco's net income for the year amounted to $65.2 million, up from $62.2 million in 1977. The Company's net income from Cominco, after dividends on Cominco's preferred stock and adjustment for charges relating to a prior period, amounted to $30.2 million, down from $31.4 million in 1977.

The decline in the value of the Canadian dollar in relation to the U.S. dollar benefited the company's earnings from export sales.

In the latter part of the year demand and prices for zinc, which had fallen because of oversupply conditions, began to strengthen, with the result that sales of zinc metal and concentrates were significantly higher than in the previous year. Prices for lead metal further strengthened late in the year.

Prices of silver and gold were strong throughout the year and in the fourth quarter reached all-time highs.

Cominco's production and sales of chemicals and fertilizers increased, reflecting the first full year of operation of the new ammonia-urea plant east of Calgary. Earnings from this source, however, were affected by higher costs for gas. Sales and prices for Cominco's potash production also improved during the year, but the high rate of taxation in Saskatchewan continued to prevent this operation from earning a profit.

Progress was made on the major expansion and modernization program announced in 1977 for the Sullivan mine at Kimberley, B.C. and the metallurgical plants at Trail, B.C. Several production and environmental protection facilities were completed.

Cominco continued its active exploration programs in Canada, the United States, Australia and Europe.

Early in 1978 Cominco issued $50 million of floating rate preferred shares of $25 par value. The proceeds were used to reduce short term debt and finance the company's capital expenditures.

The Company's holding of Cominco common shares, representing a 53.9% interest, had a market value of $288.7 million at the end of 1978, based on the closing market price of $31½ per share.

Fording Coal Limited

Fording Coal, which is 60% owned by CPI and 40% by Cominco, had net income for the year of $19.5 million, compared with $12.3 million in 1977. In addition to having its direct share of these earnings and its equity in Cominco's share, the Company received ownership payments from Fording which amounted, before tax, to $3.2 million in 1978 and $2.3 million in 1977.

The factors responsible for the improvement in Fording's income were increased sales volume and lower unit costs, combined with a small price increase that was effective April 1978. Coal sales for the year totalled 2.8 million long tons, compared with 2.3 million tons in 1977. Marketing efforts during the year resulted in sales of 180,000 long tons of metallurgical coal on a trial basis to Europe, South America and Asia. Fording is continuing with exploration of its coal deposits in western Canada and is searching out new markets for both metallurgical and thermal coal.

Forest Products

Great Lakes Forest Products Limited

The Company's share of income from Great Lakes Forest Products amounted to $11.3 million, up from $8.1 million in 1977. The combination of a larger exchange premium on the U.S. dollar and higher shipments for all products mainly accounted for the increase. Factors which restricted income growth were a lower average selling price for kraft pulp than in 1977, rising costs and an eight-day strike of the company's electrical workers. The year's earnings were also adversely affected by a charge for exchange in respect of the U.S. dollar income debentures to be repaid in 1979.

Steadily improving demand for newsprint led to a price increase on April 1, 1978, and a further increase will be effective in the early part of 1979. The market for kraft pulp began to improve during the latter half of 1978 as exceptionally high worldwide inventories returned to normal levels. The price for pulp was increased on October 1, 1978, thereby recovering some of the ground that was lost in 1977. The market for stud lumber and waferboard showed considerable strength, with prices reflecting the higher levels of housing starts in the U.S. and Canada.

In 1978 the ongoing environmental program of Great Lakes centred on overcoming problems in the functioning of the closed cycle system in the new kraft pulp mill. This technology is designed to recycle processing wastes within the mill and discharge essentially clean water into the river. It is planned to apply it to the original kraft mill as soon as it meets the desired objectives.

At year end, the Company's holding of Great Lakes Forest Products, representing a 55.7% interest, had a market value of $81.9 million, based on the closing market price of $40¾ per share.

Pacific Logging Company Limited

Pacific Logging had a successful year in 1978, with earnings rising to $7.3 million, from $2.2 million in 1977. This improvement was attributable to increased lumber production, substantially higher prices for logs and lumber, and a gain of $1.5 million on sale of a share interest in a lumber mill.

The Chemainus Towing group made a satisfactory contribution to the year's earnings, reflecting modernization of the towing fleet that was begun when the group was acquired in 1975. Results of the Ladysmith sawmill improved significantly due to the combination of increased lumber production and better prices.

Highlights of Pacific Logging's forestry program during the year included the planting of 1.4 million trees on 3,200 acres and the fertilization of approximately 2,850 acres.

In September Pacific Logging acquired a 60% interest in Mayo Forest Products Ltd., a company in which Mitsubishi (Canada) holds the remaining 40%. In addition to operating the timber and sawmill assets purchased from Mitsubishi, Mayo is constructing a large sawmill at Nanaimo, B.C. which is designed to cut lumber primarily for the Japanese market.

Commandant Properties, Limited

During the year Commandant continued its efforts to sell the remainder of the residential units that had been built on its property at Montebello, Quebec to test the market. Because of unfavourable market conditions, no further construction was undertaken. Commandant continued logging pulpwood and sawlogs from its forest lands during the year.

Iron and Steel

The Algoma Steel Corporation, Limited

1978 was a record year for Algoma, and earnings were more than double those of the previous year. The Company's share of these earnings amounted to $36.8 million, up from $15.8 million in 1977. This improvement resulted from higher steel product shipments, better operating performance and higher selling prices. Income from Dominion Bridge, which makes an important contribution to Algoma's earnings, also increased.

Although profit margins improved during the year, further price adjustments are necessary to restore margins to levels which will provide an adequate return on invested capital.

Algoma's steel product shipments rose approximately 12% over 1977. Demand for sheet and strip products and seamless tubes remained strong throughout the year, reflecting, in the first case, strength in the automotive market and, in the second, heightened drilling activity in the oil and gas industry. The demand for plate was also strong during the year and markets for rails and structurals strengthened as the year progressed, with the result that at year end order backlog for rolled steel products was at a record level. The lower value of the Canadian dollar discouraged demand for imported steel in the domestic market and at the same time made Canadian steel more attractive in the U.S. The monitoring of offshore imports by the Federal Government also appeared to be effective in discouraging the practice of dumping steel products into Canada.

As in the previous year, Algoma's results in 1978 were adversely affected by strikes. Its coal mines in West Virginia were shut down by an industry-wide strike that began early in December 1977 and was not resolved until the end of March 1978. A brief strike disrupted operations at the steelworks in Sault Ste. Marie in August. New three-year collective agreements were concluded in each case.

Capital expenditures are being increased from $39.2 million in 1978 to an estimated $100 million for 1979. Projects in 1979 include expansion of heat treat facilities to increase Algoma's capacity to produce high strength seamless casing for the oil and gas industry, a new facility for heat treating plate, the new continuous slab casting facility and work on mine development.

Prior to the end of the year, Algoma arranged for a private issue of income debentures, of which $60 million were placed early in 1979. The funds from this issue will strengthen Algoma's working capital position and assist in the financing of capital expenditures.

Purchase of an additional 342,870 common shares of Algoma by the Company in 1978 brought its holding of Algoma's issued common stock to 54.4%. The market value of this at year end was $170.6 million, based on the 1978 closing price of $26⅞ per share.

Dominion Bridge Company, Limited

In addition to its interest in Algoma's 43.1% share of the income of Dominion Bridge, the Company has a direct holding which contributed $4.6 million of income in 1978. This was $2.3 million more than in 1977, as a result not only of higher earnings of Dominion Bridge, but also of purchases by the Company during the year of 290,250 additional Bridge shares.

1978 was the eleventh successive year of increases in the sales and income of Dominion Bridge. During the year, Bridge's wholly-owned U.S. subsidiary, AMCA International Corporation, continued to expand its activities. Operations in the U.S. and international sector accounted for about 90% of Bridge's net income for the year. In the process of broadening and diversifying its earnings base, the company has been developed into a major international industrial corporation serving such growing markets as energy, chemical processing, steel, packaging, construction, bulk materials handling, heavy construction and contracting in North America and overseas.

At the end of the year the Company owned 925,750 shares of Dominion Bridge directly and

Algoma owned 4,596,824 shares, making a total of 5,522,574, and representing a total interest of 51.8%. The market value of these shares was $176.7 million, based on the 1978 closing price of $32 per share.

Steep Rock Iron Mines Limited

The Company's net income from Steep Rock amounted to $5.4 million, compared with $5.0 million in 1977. Steep Rock continued to operate smoothly throughout the year. The higher U.S. dollar exchange premium contributed significantly to the increase in income.

Plans are well developed for the termination of operations at Atikokan in 1979. Mining activities were completed early this year, when the economic ore reserves were exhausted, while pellet production will continue until late summer. Due to a surplus of iron ore in the Great Lakes region, it had been decided not to proceed with development of an iron ore property at Bending Lake. However, Steep Rock has negotiated a three-year extension of its option on the Bending Lake property and will continue to maintain its pellet plant intact so that the project may proceed when market conditions improve in the future.

The purchase of an additional 121,175 shares in 1978 raised the Company's interest to 70.3% of the outstanding stock of Steep Rock at year end. This holding had a market value of $20.1 million, based on the 1978 closing price of $3.55 per share.

Real Estate

Record earnings were reported by Marathon Realty Company Limited in 1978. This success reflected not only higher returns from its continually expanding portfolio of shopping centres, office buildings and industrial buildings, but also gains on sales of lands and residential properties.

In June Marathon disposed of its residential properties in British Columbia, comprising two condominium and two rental apartment complexes. The company's remaining residential interests comprise three apartment complexes in Alberta.

Marathon was active in the office building market during the year. Two office properties in Edmonton and two in Atlanta, Georgia, were purchased, thereby adding some 400,000 square feet of leasable space to the portfolio, which at year end totalled nearly four million square feet. Construction and leasing of Phase I of the Deer Lake complex in Burnaby, B.C. was completed by year end. Two other buildings, one in San Francisco and one in Toronto, are scheduled for initial occupancy in the spring of 1979. A second building in Toronto and one in Portland, Oregon, are in the early stages of construction and should be completed by 1980. Site work is under way for the new head office of PanCanadian Petroleum in Calgary.

During the year, Marathon expanded its shopping centre interests through purchases of Dufferin Mall in Toronto, Argyle Mall in London, Ontario, and Northland Village Mall in Calgary. These added 1.1 million square feet to Marathon's leasable area of shopping centre space, bringing the year-end total to approximately five million square feet. Projects under way include King Centre, a downtown retail complex in Kitchener, Ontario, and Place d'Orleans, a shopping centre southeast of Ottawa, of which the first phase is scheduled to open in the latter part of 1979.

Four industrial buildings started in 1977 and completed during 1978 were 80% leased by year end. Construction commenced on a multi-use industrial building in Winnipeg and an air cargo warehouse in Edmonton. Development and servicing progressed on Mayfair Industrial Park in Coquitlam, B.C., where sales of industrial lots have been encouraging.

In November Marathon successfully completed a public issue of $55 million 10% first mortgage sinking fund bonds, to mature in 1998. The proceeds will be used to repay debt and further the company's expansion.

Hotels and Food Services

Of the loss of $15.0 million incurred by Canadian Pacific Hotels Limited in 1978, a major portion was due to write-offs relating to development projects undertaken in prior years.

Operations in Canada were adversely affected by a strong competitive situation and markets that were basically weak. This was particularly true of Montreal, Mirabel, and Quebec City, where the company's hotels lost money. Outside Canada, results of the Hamburg Plaza and fees from other managed units were satisfactory, but heavy losses were sustained at the Frankfurt Plaza Hotel in Frankfurt.

The year's activities included continuation of construction at the Calgary International Airport of the Chateau Airport Hotel and the new airline catering kitchen. Both of these are scheduled to open in the summer of 1979. A new airline flight kitchen in Mexico, in which CP Hotels has a 40% interest, is also expected to open in the summer of 1979.

The four hotels in the Bahamas which are operated by CP Hotels under management contract are being extensively renovated by their owner, the Bahamian Government. In the United States, construction is progressing on the 800-room Franklin Plaza in Philadelphia, which CP Hotels will be managing.

Finance

Chateau Insurance Company

The Company's income from Chateau Insurance amounted to $1.6 million, compared with $1.3 million in 1977. Severe price competition in all lines of property and casualty insurance resulted in a decline in the rate of growth of all Canadian insurance companies, including Chateau.

The takeovers by Chateau of the Canadian business of Aetna Insurance Company in 1976 and of the Great American Insurance Company in 1977 necessitated certain changes in reinsurance treaties, and personnel and agency representation, which were completed in 1978. The company's residential and automobile lines have been made more competitive, and during the year a fully-equipped surety department was set up, which should enable Chateau to increase its market share in the provision of performance bonds in the construction industry. The company intends to expand its operations to new territories in 1979.

Canadian Pacific Securities Limited

Canadian Pacific Securities had earnings of $1.1 million in 1978, compared with $912,000 in 1977. Sharply rising interest rates throughout the year helped in achieving the higher net. Borrowings of the company to provide funds for money market operations and for lending to various companies in the CP Investments group amounted to $515 million at year end. Of this amount, $308 million was in short term promissory notes, $179 million was in medium and long term debt and $28 million in bank term loans.

Other Operations

A new subsidiary, Canellus International N.V., was incorporated in the Netherlands during the year to hold the non-Canadian interests of CP Investments. Canellus International owns Canellus Incorporated, a U.S. subsidiary created in 1978 to hold both Baker Commodities, Inc. and Syracuse China Corporation. CanPac AgriProducts Limited, which owned Baker Commodities and Rothsay Concentrates Co. Limited, was dissolved, and Rothsay is now owned directly by the Company. Canellus Finance N.V. was incorporated in the Netherlands Antilles as a financing company to assist in the acquisition of non-Canadian businesses.

Baker Commodities, Inc.

Net income from Baker Commodities amounted to $4.9 million, compared with $3.7 million in 1977. The increase was the result of higher sales volumes. Sales of tallow and feeding fats rose 17% during the year, and included substantial first-time sales to Russia. Average prices for animal fats increased steadily, while those for protein held about the same as in the previous year.

Marketing and processing of vegetable oils and the operation of storage facilities for bulk animal fats and vegetable oils also contributed to the year's earnings.

Syracuse China Corporation

Under the terms of a cash offer made in April 1978, the Company purchased all the outstanding common shares of Syracuse China Corporation, at a cost of approximately $22 million. Income from Syracuse China, which was consolidated from May, amounted to $2.8 million.

Syracuse manufactures the largest selling brand of commercial chinaware in the United States, and also sells a line of cast metal tableware and candles. Its Canadian subsidiary is the sole domestic producer of commercial dinnerware.

The U.S. food service industry, which is Syracuse China's primary market, is experiencing strong growth that is expected to continue. The company's manufacturing facilities are currently operating at capacity, and in order to maintain its dominant share of the U.S. commercial china market, there is under way an expansion program that will add 50% to manufacturing capability by 1983.

Rothsay Concentrates Co. Limited

Rothsay Concentrates earned $956,000 in 1978, up from $442,000 in the previous year. Strong protein and tallow markets and the availability of increased volumes of raw material largely accounted for the improvement. Average finished product prices were higher than in 1977 and export sales of tallow increased significantly.

Investment Income

The increase of $22.9 million in investment income was more than accounted for by the net gain, after income tax, of $23.8 million on the sale of the Company's 12% interest in TransCanada PipeLines Limited. In addition, income from interest and dividends was up, and corporate interest charges were down. However, there was a significant reduction in sales of other shares from the portfolio. The largest of the 1978 sales, apart from the TransCanada one, were 10,000 shares of MICC Investments Limited and 8,600 shares of Husky Oil Ltd.

Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements of Canadian Pacific Investments Limited (CPI) include the accounts of all subsidiary companies. The principal subsidiaries, classified by line of business, are as follows:

		Percentage Ownership
Oil and gas	PanCanadian Petroleum Limited	87.10%
Mines and minerals	Cominco Ltd.	53.91%
	Fording Coal Limited	60% CPI and 40% Cominco
Forest products	Pacific Logging Company Limited	100%
	Great Lakes Forest Products Limited (1)	55.69%
	Commandant Properties, Limited	100%
Iron and steel	The Algoma Steel Corporation, Limited	54.40%
	Steep Rock Iron Mines Limited	70.33%
	Dominion Bridge Company, Limited	8.68% CPI and 43.10% Algoma
Real estate	Marathon Realty Company Limited	100%
Hotels and food services	Canadian Pacific Hotels Limited	100%
Finance	Canadian Pacific Securities Limited	100%
	Chateau Insurance Company	99.96%
Other operations	Canellus International N.V.	100%
	Rothsay Concentrates Co. Limited	100%

(1) Prior to January 1, 1979, the name of this company was The Great Lakes Paper Company, Limited.

Steep Rock supplies iron ore pellets to Algoma Steel and Algoma supplies structural steel and plate to Dominion Bridge. In reporting the results of Iron and Steel operations in the statement of consolidated income, the following amounts have been eliminated from sales and operating revenue and from expenses: 1978, $63,920,000; 1977, $35,633,000. Inter-company interest charges, amounting to $29,310,000 in 1978 and $29,632,000 in 1977, have not been eliminated in the statement of consolidated income in order to present fairly the results by activity. CPI's net income is not affected by this practice. There are no other significant inter-company charges within the CPI group of companies.

Foreign exchange

Current assets and current liabilities have been translated from foreign currencies into Canadian dollars at current rates. Fixed assets, related depreciation, depletion and amortization and long term debt have been translated at historical rates. Revenues and expenses (except depreciation, which is translated at historical rates) have been translated at average rates in effect during the year. Gains or losses on exchange are included in income.

Inventories

Raw materials and products of mining operations are valued generally at the lower of cost (determined on the monthly average method) and net realizable value. Stores and materials are valued at cost less appropriate allowances for obsolescence.

Finished products and work in process of Iron and Steel operations are valued at the lower of cost and net realizable value. Work in progress related to construction contracts is stated at accumulated production costs less amounts charged to income based on the percentage of completion of individual contracts. Raw materials and supplies are valued at the lower of cost and replacement cost.

Other inventories (principally related to Forest Products and Other Operations) are valued at the lower of cost (generally average cost) and net realizable value.

Accounting for oil and gas properties

The full cost method of accounting is followed for oil and gas properties, whereby all costs related to the exploration for and the development of oil and gas reserves are capitalized. Such costs are depleted by the unit of production method based on estimated proven oil and gas reserves.

Accounting for mining properties

Expenditures on general mineral exploration are charged against earnings as incurred. Expenditures to investigate identified properties and to develop new mines are capitalized as mineral properties and development. Because of the uncertainty of the final outcome, expenditures on investigation, together with the cost of certain investments in mineral companies, are amortized against earnings by charges for depletion. Abandoned properties are written off in the year of abandonment. Depletion on operating mines is provided on a units of production or on a time basis based on the mineral reserves position.

Accounting for iron and steel properties

Depreciation of manufacturing plant and equipment is provided on the straight-line basis at rates intended to write off these assets over their estimated economic lives. Mining equipment, mine development and deferred overburden removal costs are amortized on a unit of production basis over the estimated recoverable iron ore and coal reserves.

Expenditures on exploration for, investigation of, and holding, raw material properties, and costs of research, development and start-up of new production facilities, are charged to earnings as incurred.

Interest incurred on funds borrowed directly to finance the development of new raw material properties is capitalized during the period of construction and initial development. Such interest is included in the charge to earnings for depreciation and amortization when production commences in commercial quantities.

Accounting for real estate properties

Land is carried at cost. Development costs and carrying costs, net of incidental revenue, are capitalized for land currently being developed or on which development is expected within five years, providing the book value of the land does not exceed market value. Carrying costs of all other land are included in operations.

Buildings and construction in progress are carried at cost, including interest during construction, pre-completion operating costs less any revenue, and other direct development expenses.

The sinking fund method of providing for depreciation is used for major real estate developments. The sinking fund method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually. Under this method depreciation charged to income in later years will be substantially higher than the amount charged in earlier years.

Accounting for other properties

Depreciation and amortization of other properties are charged to earnings, generally on the straight-line basis, over the estimated economic lives of the facilities involved.

Interest on debt incurred to finance major expansion programs under Forest Products and Hotels and Food Services is capitalized during the construction period.

Pensions

In addition to current service costs, charges to income include annual payments on account of past service liabilities. Such liabilities are being funded over varying periods to 1992.

Income taxes

The companies follow the tax allocation basis of accounting for income taxes, whereby tax provisions are based on accounting income and taxes relating to timing differences between accounting and taxable income are deferred.

Statement of Consolidated Income

	For the Year ended December 31	1978	1977
		(in thousands)	
Oil and Gas	Gross operating revenue	$ 332,881	$301,346
	Expenses including income taxes	189,425	174,800
		143,456	126,546
	Interest of outside shareholders	18,506	16,324
	Net income	124,950	110,222
Mines and Minerals	Gross operating revenue	1,089,777	917,406
	Expenses including income taxes	1,007,907	839,534
		81,870	77,872
	Interest of outside shareholders	37,739	36,808
	Net income	44,131	41,064
Forest Products	Sales and operating revenue	361,254	305,421
	Expenses including income taxes	333,786	289,032
		27,468	16,389
	Interest of outside shareholders	9,166	6,252
	Net income	18,302	10,137
Iron and Steel	Sales and operating revenue	1,863,793	715,366
	Expenses including income taxes	1,749,515	669,212
		114,278	46,154
	Interest of outside shareholders	67,557	23,166
	Net income	46,721	22,988
Real Estate	Gross rentals and other income	128,690	95,784
	Expenses including income taxes	113,164	84,031
		15,526	11,753
	Interest of outside shareholders	211	184
	Net income	15,315	11,569
Hotels and Food Services	Gross operating revenue	182,124	154,785
	Expenses including income taxes	197,111	159,481
	Net income	(14,987)	(4,696)
Finance	Gross operating revenue	62,922	61,150
	Expenses including income taxes	60,191	58,661
	Net income	2,731	2,489
Other Operations	Gross operating revenue	208,290	156,612
	Expenses including income taxes	200,857	152,186
	Net income	7,433	4,426
Investment Income	Gross income	46,952	18,706
	Expenses including income taxes	17,598	12,223
	Net income	29,354	6,483
	Income before extraordinary item	273,950	204,682
	Extraordinary item after income taxes	—	8,542
	Net Income	$ 273,950	$213,224
Earnings per Common Share	Income before extraordinary item	$4.51	$3.41
	Net income	4.51	3.55

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements

Statement of Consolidated Retained Income

For the Year ended December 31	1978	1977
	(in thousands)	
Balance, January 1	$674,047	$503,057
Net income for the year	273,950	213,224
	947,997	716,281
Commission and expense relating to issuance of preference shares by subsidiary companies	147	112
Dividends		
4¾% Preferred shares	40	432
Common shares (per share—1978 - 79¢; 1977 - 69¢)	47,956	41,690
Total dividends	47,996	42,122
Balance, December 31	$899,854	$674,047

Statement of Changes in Consolidated Financial Position

	For the Year ended December 31	1978	1977
		(in thousands)	
Source of Funds	Income before extraordinary item	$ 273,950	$204,682
	Add/(Deduct)		
	Depreciation, depletion and amortization	233,071	181,094
	Deferred income taxes	91,404	45,425
	Equity in net earnings of associated companies	(2,008)	(17,958)
	Dividends from associated companies	2,508	4,814
	Outside shareholders' interest in income of subsidiaries	133,179	82,734
	Funds from operations	732,104	500,791
	Proceeds from sale of subsidiary	—	71,359
	Sales of investments	63,517	6,979
	Issuance of long term debt	417,175	138,519
	Issuance of preference shares by subsidiaries	50,000	80,000
	Proceeds from disposal of properties	41,768	8,048
	Working capital of subsidiaries acquired	127,093	—
	Working capital deficit of subsidiary sold	—	18,520
		$1,431,657	$824,216
Application of Funds	Additions to properties	$ 661,053	$327,886
	Additions to investments	29,622	79,456
	Investment in subsidiaries acquired and consolidated	24,367	—
	Reduction in long term debt	226,387	155,604
	Reduction of outside shareholders' interest in subsidiaries	11,227	257
	Dividends declared	47,996	42,122
	Dividends paid outside shareholders of subsidiaries	52,286	37,881
	Sundries (net)	2,990	5,791
	Increase in working capital	375,729	175,219
		$1,431,657	$824,216

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

Assets

December 31		1978	1977
		(in thousands)	
Current Assets	Cash and temporary investments, at cost (approximates market)	$ 469,064	$ 252,189
	Deposits and demand loans (interest bearing)— Canadian Pacific Limited and subsidiaries	141,765	133,225
	Dividends and other accrued interest receivable	6,608	5,973
	Accounts receivable	681,030	326,869
	Inventories	679,464	492,105
	Prepaid expenses	29,037	19,882
		2,006,968	1,230,243
Investments	Portfolio, at cost (market value $144,306,000; 1977—$203,000,000)	152,668	215,333
	Other	214,425	278,189
		367,093	493,522
Properties, at cost	Oil and gas	1,047,391	708,272
	Mines and minerals	1,122,859	1,089,573
	Forest products	528,316	508,841
	Iron and steel	1,232,901	988,283
	Real estate	519,736	424,307
	Hotels and food services	200,291	175,358
	Other operations	40,459	18,595
		4,691,753	3,913,229
	Less: Accumulated depreciation, depletion and amortization	1,546,944	1,320,556
		3,144,809	2,592,673
Other Assets and Deferred Charges		156,824	92,873
		$5,675,694	$4,409,311

Auditors' Report to the Shareholders of Canadian Pacific Investments Limited:

We have examined the consolidated balance sheet of Canadian Pacific Investments Limited as at December 31, 1978 and the statements of consolidated income, consolidated retained income and changes in consolidated financial position for the year then ended. Our examination of the financial statements of Canadian Pacific Investments Limited and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied upon the reports of the auditors who have examined the financial statements of the other subsidiaries, which include The Algoma Steel Corporation, Limited, Cominco Ltd., Dominion Bridge Company, Limited, Great Lakes Forest Products Limited and Steep Rock Iron Mines Limited.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.,
Chartered Accountants.
Montreal, Quebec, March 2, 1979.

See Summary of Significant Accounting Policies, Other Financial Information and Notes to Consolidated Financial Statements.

Consolidated Balance Sheet — Liabilities

December 31		1978	1977
		(in thousands)	
Current Liabilities	Bank loans	$ 49,631	$ 45,019
	Accounts payable and accrued charges—		
	Canadian Pacific Limited	10,227	8,522
	Other	624,574	348,156
	Notes and accrued interest payable	308,079	289,895
	Income and other taxes payable	127,310	77,511
	Dividends payable	26,898	21,718
	Long term debt maturing within one year	185,855	140,757
		1,332,574	931,578
Deferred Liabilities		44,315	26,637
Long Term Debt		1,478,829	1,173,331
Outside Shareholders' Interest in Subsidiary Companies		942,595	733,635
Deferred Income Taxes		463,099	355,539
Shareholders' Equity	Capital stock		
	Preferred shares		
	Authorized—12,500,000 shares of a par value of $20 each		
	Issued —39,657 (1977—46,679)		
	4¾% Cumulative Redeemable Convertible Voting, Series A	793	934
	Common shares		
	Authorized—100,000,000 shares without nominal or par value		
	Issued —60,704,118 shares	431,810	431,810
	Paid-in surplus	81,825	81,800
	Retained income	899,854	674,047
		1,414,282	1,188,591
		$5,675,694	$4,409,311

Approved on behalf of the Board

Ian D. Sinclair, Director

W. Moodie, Director

Other Financial Information

Depreciation, Depletion and Amortization Charged to Expenses

	1978	1977
	(in thousands)	
Oil and gas	**$ 40,749**	$ 33,910
Mines and minerals	**76,268**	71,584
Forest products	**25,641**	24,827
Iron and steel	**67,526**	35,664
Real estate	**5,555**	4,758
Hotels and food services	**13,954**	8,369
Other operations	**3,378**	1,982
	$233,071	$181,094

The amount of depletion charged to expenses for the year 1978 was $50,306,000 (1977—$43,130,000) and the accumulated depletion at December 31, 1978 was $275,996,000.

Interest Expense

	1978	1977
	(in thousands)	
Interest on long term debt	**$134,123**	$112,009
Interest on short term debt	**31,177**	31,659
	$165,300	$143,668

Interest capitalized on funds borrowed to finance capital projects amounted to $8,589,000 (1977—$8,928,000).

Income Taxes

	1978	1977
	(in thousands)	
Oil and gas	**$ 62,161**	$ 65,211
Mines and minerals	**64,063**	56,179
Forest products	**25,586**	14,999
Iron and steel	**40,349**	(15,800)
Real estate	**8,743**	6,409
Hotels and food services	**(3,939)**	(3,162)
Finance	**1,920**	1,951
Other operations	**6,152**	2,918
Investment income	**6,998**	(349)
Total (including deferred income taxes of 1978—$91,494,000; 1977—$45,425,000)	**$212,033**	$128,356

Extraordinary Item

	1978	1977
	(in thousands)	
Net gain on sale of CanPac Leasing Limited after income taxes of $2,051,000	**$ —**	$ 6,491
Reduction in income taxes from application of loss carry-forward	**—**	2,051
	$ —	$ 8,542

Other Financial Information

Inventories

	1978	1977
	(in thousands)	
Oil and gas		
Product	**$ 6,553**	$ 12,704
Stores and materials	**2,889**	3,804
	9,442	16,508
Mines and minerals		
Raw materials and products	**164,294**	158,087
Stores and materials	**46,677**	47,625
	210,971	205,712
Forest products		
Raw materials and products	**31,836**	30,721
Stores and materials	**12,403**	11,031
	44,239	41,752
Iron and steel		
Raw materials and products	**359,993**	181,592
Stores and materials	**22,499**	18,304
	382,492	199,896
Real estate		
Condominiums held for sale	**—**	13,173
Stores and materials	**155**	157
	155	13,330
Hotels and food services		
Materials and supplies	**9,294**	8,169
Other operations		
Raw materials and products	**22,871**	6,738
	$679,464	$492,105

Investment Portfolio as at December 31, 1978

	Number of shares	Percentage of outstanding voting shares	Cost	Approximate market value
			(in thousands)	
Common Stocks				
MacMillan Bloedel Limited	2,849,600	13.40	$ 82,560	$ 62,349
MICC Investments Limited	323,900	5.66	1,484	3,239
Norcen Energy Resources Limited	271,700	1.19	3,804	4,891
Rio Algom Limited	1,331,956	9.86	30,823	45,952
Union Carbide Canada Limited	825,300	8.25	18,375	14,344
Other			5,726	5,129
			142,772	135,904
Preferred Stocks			7,588	6,310
Bonds, Debentures and Notes			2,308	2,092
			$152,668	$144,306

Other Investments

	1978	1977
	(in thousands)	
Dominion Bridge Company, Limited, at cost plus equity in undistributed net income (now consolidated)	**$ —**	$ 95,972
Others, at cost:		
Tara Exploration and Development Company Limited	**26,903**	26,903
Bethlehem Copper Corporation	**41,313**	41,310
Panarctic Oils Ltd.	**39,119**	36,932
Tilden Iron Ore Company	**34,458**	25,331
Other	**72,632**	51,741
	$214,425	$278,189

Other Financial Information

Properties and Accumulated Depreciation, Depletion and Amortization

	1978 (in thousands) Cost	Accumulated depreciation, depletion and amortization	Net	1977 Net
Oil and gas				
Equipment	$ 367,450	$ 70,696	$ 296,754	$ 116,713
Petroleum, natural gas and mineral properties	679,941	171,450	508,491	389,183
	1,047,391	242,146	805,245	505,896
Mines and minerals				
Land, buildings and equipment	898,573	360,155	538,418	526,467
Mining properties and development	224,086	84,880	139,206	142,519
	1,122,659	445,035	677,624	668,986
Forest products				
Land and improvements	8,630	—	8,630	6,284
Buildings and equipment	434,334	188,460	245,874	252,864
Timberlands, leases and licences	85,352	15,896	69,456	70,596
	528,316	204,356	323,960	329,744
Iron and steel				
Manufacturing plants	1,088,342	493,069	595,273	471,262
Raw material properties	144,559	75,082	69,477	70,613
	1,232,901	568,151	664,750	541,875
Real estate				
Land	145,498	—	145,498	122,654
Buildings	318,419	28,857	289,562	257,012
Construction in progress	55,819	—	55,819	18,811
	519,736	28,857	490,879	398,477
Hotels and food services				
Land	5,628	—	5,628	4,786
Buildings and equipment	194,663	51,721	142,942	127,964
	200,291	51,721	148,570	132,750
Other operations				
Land	2,981	—	2,981	1,976
Buildings and equipment	37,478	6,678	30,800	12,969
	40,459	6,678	33,781	14,945
	$4,691,753	$1,546,944	$3,144,809	$2,592,673

Long Term Debt

	1978 (in thousands)	1977
Canadian Pacific Investments Limited		
Income debentures, 4¾%—7½%, due 1979-1980	**$ 67,350**	$ 78,100
Bank loan due 1978	**—**	5,000
The Algoma Steel Corporation, Limited		
5¼% Sinking Fund Debentures due 1978	**—**	10,000
7⅜% Sinking Fund Debentures due 1987	**21,600**	22,800
8¾% Sinking Fund Debentures due 1991	**31,400**	32,605
10⅜% Sinking Fund Debentures due 1994	**50,000**	50,000
11% Sinking Fund Debentures due 1995	**65,000**	65,000
8½% Series A notes due 1991	**21,000**	21,500
Short term—convertible into term loans to 1979	**26,130**	36,722
Other	**15,125**	15,743
Canadian Pacific Hotels Limited		
8⅝% First Mortgage Sinking Fund Bonds, Series A, due 1992	**19,000**	19,500
11⅜% First Mortgage Sinking Fund Bonds, Series B, due 1995	**30,000**	30,000
Sundry—due 1979-1988	**13,799**	12,069
Carried forward	**$360,404**	$399,039

Other Financial Information

Long Term Debt (continued)

	1978	1977
	(in thousands)	
Brought forward	**$ 360,404**	$ 399,039
Canadian Pacific Securities Limited		
7% bank loan due 1979	**25,000**	25,000
Bank loan due 1985	**3,210**	3,210
9½% Sinking Fund Debentures due 1990	**22,000**	22,750
9⅜% Sinking Fund Debentures due 1990	**36,400**	37,122
8¼% Sinking Fund Debentures due 1993	**15,000**	15,000
10½% Debentures due 1984	**30,000**	30,000
10⅛% Promissory note due 1980	**5,000**	5,000
9¾% Guaranteed notes due 1981	**35,000**	35,000
9¼% Guaranteed notes due 1983	**35,000**	35,000
Cominco Ltd.		
8½% Sinking Fund Debentures due 1991	**58,952**	61,740
10⅞% Sinking Fund Debentures due 1995	**60,000**	60,000
Bank loans due 1979-1985	**35,162**	36,545
Notes due 1982-1996	**49,224**	49,224
Subsidiaries of Cominco Ltd.		
Sundry indebtedness	**50,364**	55,328
Dominion Bridge Company, Limited		
6½% Sinking Fund Debentures Series A due 1986	**7,489**	—
9% Debentures due 1986	**28,081**	—
Bank loans due 1979-1987	**73,154**	—
Other notes payable 1979-1996	**51,955**	—
Fording Coal Limited		
Bank loans due 1978	**—**	15,000
Great Lakes Forest Products Limited		
First Mortgage Bonds—		
8% Sinking Fund Bonds, Series B, maturing 1989	**15,726**	16,430
11¼% Sinking Fund Bonds, Series C, maturing 1995	**34,420**	35,000
8¾% Debentures due 1984	**20,966**	20,966
Floating Rate Income Debentures due 1980	**35,580**	31,704
Marathon Realty Company Limited		
10% First Mortgage Sinking Fund Bonds, Series A, due 1998	**55,000**	—
Sundry loans and mortgages payable 1979-2006	**165,851**	146,886
Bank loans due 1979-1983	**49,051**	22,185
PanCanadian Petroleum Limited		
Bank loans due 1979-1988	**195,883**	45,447
8⅛% Sinking Fund Secured Debentures due 1992	**23,500**	24,250
8¾% Sinking Fund Secured Debentures due 1992	**24,500**	25,000
9¾% Sinking Fund Debentures due 1983	**35,000**	35,000
Steep Rock Iron Mines Limited		
Sundry—due 1979	**7,656**	9,745
Other companies	**20,156**	16,517
	1,664,684	1,314,088
Less: Long term debt maturing within one year	**185,855**	140,757
	$1,478,829	$1,173,331

Except where otherwise indicated, interest on bank loans fluctuates (in certain cases within defined limits) with the lender's prime commercial rate.

At December 31, 1978, foreign currency long term debt translated at current rates would be $436,365,000, which is $37,926,000 more than the amount at which it is carried above.

Annual maturities and sinking fund requirements for each of the five years following 1978 are: 1979, $185,855,000; 1980, $102,480,000; 1981, $144,457,000; 1982, $101,731,000; 1983, $191,494,000.

Notes to Consolidated Financial Statements

1. Capital Stock

The preferred shares, series A, are redeemable at CPI's option at $20 per share.

2. Outside Shareholders' Interest in Subsidiary Companies

The outside shareholders' interest in subsidiary companies is comprised as follows:

	1978	1977
	(in thousands)	
PanCanadian Petroleum Limited	**$ 56,523**	$ 42,603
Cominco Ltd.		
$2.00 tax deferred exchangeable preferred shares, series A	**50,000**	50,000
Floating rate preferred shares, series C	**50,000**	—
Common share equity	**249,952**	248,976
Great Lakes Forest Products Limited	**43,258**	34,977
The Algoma Steel Corporation, Limited		
8% tax deferred preference shares, series A	**60,000**	60,000
Floating rate preference shares	**80,000**	80,000
Common share equity	**222,381**	203,903
Dominion Bridge Company, Limited	**114,656**	—
Steep Rock Iron Mines Limited	**13,520**	12,324
Other	**2,305**	852
	$942,595	$733,635

3. Pensions

At December 31, 1978 there were unfunded liabilities, determined by actuarial evaluations, of $190,000,000 which is being funded by series of equal annual payments ending from 1981 to 1992.

4. Commitments and Contingencies

At December 31, 1978 commitments for capital expenditures amounted to $351,000,000 and commitments under long term leases were estimated at $528,000,000.

Final negotiations are being carried out for the sale of the majority of PanCanadian Petroleum's investment in an ammonia plant project. If negotiations are successfully concluded, the sale will be consummated in March and should result in the recovery of PanCanadian's net investment in the project.

Algoma Steel, as a participant in an iron ore mining joint venture, is entitled to receive its proportionate share of production and is committed to pay its share of costs including minimum charges for principal and interest to cover the servicing of long term debt. Algoma's share of such minimum charges was $13,000,000 in 1978 and will average approximately $21,000,000 annually during the next five years.

5. Directors' and Officers' Remuneration

In 1978, CPI had 14 directors and 7 officers. Remuneration paid directly to each group by CPI was $71,000 (1977—$71,000) and $326,000 (1977—$194,000) respectively. Three of the officers were also directors. In addition certain directors of CPI received remuneration from the undernoted subsidiaries in their capacities as directors or officers of those companies.

	1978	1977
Cominco	$174,000	$223,000
PanCanadian	141,000	143,000
Others, principally Algoma Steel	249,000	268,000

Notes to Consolidated Financial Statements

6. Acquisitions

In January 1978, CPI acquired additional shares of Dominion Bridge Company, Limited giving it a direct holding of 6.91%. This, together with Algoma Steel's holding of 43.22% brought the total holding to 50.13%. Dominion Bridge is a diversified engineering and manufacturing company. At the end of April 1978, CPI through subsidiaries acquired all the outstanding shares of Syracuse China Corporation, which manufactures chinaware, through a cash merger. These acquisitions were accounted for as purchases and consolidated from the dates of acquisition.

A summary of the assets acquired and the consideration given is as follows:

	Dominion Bridge	Syracuse China
	(in thousands)	
Net assets of acquired company, other than goodwill, at book value	$128,922	$10,703
Adjustment of net assets acquired, other than goodwill, to fair value	1,162	8,566
Goodwill on books of acquired company arising from an acquisition in 1977	64,813	—
	194,897	19,269
Interest of outside shareholders	96,616	—
	98,281	19,269
Excess of purchase price over CPI proportion of fair value of assets acquired, ascribed to goodwill	—	2,789
	$ 98,281	$22,058
Consideration given:		
CPI's investment as at December 31, 1977	$ 13,595	$ —
Algoma Steel's investment as at December 31, 1977	82,377	—
Acquired for cash in 1978	2,309	22,058
	$ 98,281	$22,058

7. Restatement

Certain figures for 1977 have been reclassified to conform with the presentation adopted for 1978.

8. Subsequent Events

Marathon Realty Company Limited has arranged to issue $50,000,000 income debentures due 1991, subject to a favourable tax ruling. The proceeds will be used for general corporate purposes.

On February 15, 1979 The Algoma Steel Corporation, Limited sold $60,000,000 income debentures and Algoma is committed to issue a further $40,000,000 subject to a satisfactory tax ruling. The proceeds will be used to redeem short term debt, long term debt and to finance capital expenditures.

Five-Year Summary

	1974	1975	1976	1977	**1978**
	Figures in thousands, except amounts per share				
Consolidated income					
Oil and gas	$ 40,317	$ 59,805	$ 74,064	$110,222	**$124,950**
Mines and minerals	48,723	53,819	32,360	41,064	**44,131**
Forest products	12,069	1,734	5,200	10,137	**18,302**
Iron and steel	14,172	22,257	13,467	22,988	**46,721**
Real estate	5,582	7,662	10,423	11,569	**15,315**
Hotels and food services	4,507	3,330	10	(4,696)	**(14,987)**
Finance	780	1,374	2,299	2,489	**2,731**
Other operations	(42)	(371)	837	4,426	**7,433**
Investment income	4,529	(7,233)	1,521	6,483	**29,354**
Income before extraordinary item	130,637	142,377	140,181	204,682	**273,950**
Extraordinary item	—	—	—	8,542	**—**
Net Income	$130,637	$142,377	$140,181	$213,224	**$273,950**
Dividends—Preferred Shares	$ 2,082	$ 1,163	$ 809	$ 432	**$ 40**
—Common Shares	35,641	36,315	38,270	41,690	**47,956**
Number of Shares Outstanding					
Common	58,040	58,727	59,491	60,704	**60,704**
Preferred	1,379	1,035	653	47	**40**
Per Common Share					
Income before extraordinary item	$ 2.29	$ 2.42	$ 2.36	$ 3.41	**$ 4.51**
Net income	2.29	2.42	2.36	3.55	**4.51**
Dividends	.62	.62	.645	.69	**.79**
Market price —High	18	17⅛	22¾	19⅞	**26**
(Toronto Stock Exchange)—Low	11⅜	12⅜	14¾	16½	**17**
Price/earnings ratio—High	8	7	10	6	**6**
—Low	5	5	6	5	**4**

Geographic Distribution of Net Property Investment

at December 31, 1978

	Properties at Cost, less Depreciation (millions)	Percent of Total
Canada		
Maritimes	$ 12	— %
Quebec	201	7
Ontario	938	30
Prairies	1,013	32
B.C.	452	14
N.W.T., Yukon and Offshore	113	4
	2,729	87
Outside Canada		
United States	342	11
Other	74	2
	416	13
Total	$3,145	100%

Principal Subsidiary Companies

Canadian Pacific Investments Limited

Suite 1900
Place du Canada
Montreal, Quebec
H3B 2N2

Marathon Realty Company Limited
S. E. Eagles, Chairman and President

Toronto-Dominion Centre
P.O. Box 375
Toronto, Ontario
M5K 1K8

Canadian Pacific Hotels Limited
A. G. Cardy, President

The Royal York Hotel
100 Front St. W.
Toronto, Ontario
M5J 1E3

Pacific Logging Company Limited
W. M. Sloan, President

P.O. Box 10
468 Belleville Street
Victoria, British Columbia
V8W 2M3

Canadian Pacific Securities Limited
R. S. DeMone, Chairman

20 King Street West
Toronto, Ontario
M5H 1C4

Commandant Properties, Limited
L. M. Riopel, President

Suite 1900
Place du Canada
Montreal, Quebec
H3B 2N2

Chateau Insurance Company
R. T. Riley, Chairman

Suite 3000
2300 Yonge Street
Toronto, Ontario
M4P 2X3

Rothsay Concentrates Co. Limited
G. Brent Ballantyne, President

R.R. #1
Moorefield, Ontario
N0G 2K0

Baker Commodities, Inc.
J. M. Andreoli, President

4020 Bandini Blvd.
Los Angeles, California 90023
U.S.A.

* **Cominco Ltd.**
F. E. Burnet, Chairman of the Executive Committee

200 Granville Square
Vancouver, British Columbia
V6C 2R2

* **PanCanadian Petroleum Limited**
Robert W. Campbell, Chairman

2000, One Palliser Square
P.O. Box 2850
Calgary, Alberta
T2P 2S5

* **The Algoma Steel Corporation, Limited**
John Macnamara, President

503 Queen Street East
Sault Ste. Marie, Ontario
P6A 5P2

* **Dominion Bridge Company, Limited**
K. S. Barclay, Chairman

1155 Dorchester Boulevard West
Montreal, Quebec
H3B 4C7

* **Great Lakes Forest Products Limited**
C. J. Carter, Chairman and President

P.O. Box 430
Thunder Bay, Ontario
P7C 4W3

Fording Coal Limited
J. H. Morrish, President

Natural Resources Building
205—9th Avenue S.E.
Calgary, Alberta
T2G 0R4

* **Steep Rock Iron Mines Limited**
L. J. Lamb, President

Atikokan, Ontario
P0T 1C0

Syracuse China Corporation
R. J. Theis, Chairman

2900 Court Street
P.O. Box 4820
Syracuse, N.Y. 13221
U.S.A.

*A copy of the 1978 annual report of this company can be obtained by writing to its Secretary at the address shown.

Canadian Pacific Investments Limited

Annual Report 1978

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